

Message Text

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ACTION EB-07

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MADRID FOR MICHAEL B. SMITH

E.O. 11652: N/A

TAGS: STRD, TH, RP

SUBJECT: COTTON CONTRACT PROBLEM - TECHNICAL TEAM

REF: STATE 108875

1. STRENGTH OF ASSURANCES: BOTH GOVERNMENT AND
INDUSTRY MEMBERS OF COTTON CONTRACT TERM BELIEVE WRITTEN
ASSURANCES WITH ATTACHED ANNEXES WHICH WERE RECEIVED
FROM GOVERNMENTS OF KOREA, PHILIPPINES AND ROC WILL
EFFECTIVELY PREVENT WIDE-SCALE DEFAULTING ON COTTON
CONTRACTS IN THESE COUNTRIES. IN EACH OF THESE THREE
COUNTRIES, DISCUSSIONS BETWEEN GOVERNMENT MEMBERS OF TEAM
AND HOST GOVERNMENT OFFICIALS EMPHASIZED THE PROMISION OF
WRITTEN ASSURANCES WHICH SPECIFIES THAT HOST
GOVERNMENT WILL "TAKE ALL NECESSARY MEASURES TO ASSURE
THAT LETTERS OF CREDIT ARE OPENED ...". UNDER THE
CIRCUMSTANCES, IT IS DIFFICULT TO SEE HOW STRONGER
ASSURANCE COULD BE OBTAINED.

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2. DEGREE OF COMPLIANCE WITH ASSURANCES: THE COTTON CONTRACT TERM BELIEVES THAT COMPLIANCE WITH THE WRITTEN ASSURANCES WILL BE SUCH THAT NO US COTTON SHIPPER WILL FACE BANKRUPTCY AS A RESULT OF DEFAULTS ON CONTRACTS WITH MILLS IN THESE THREE COUNTRIES. IN TURN THIS MEANS THAT US COTTON PRODUCERS (INCLUDING MEMBERS OF COTTON COOPERATIVES) RUN NO RISK THAT BANGKRUPT SHIPPERS WILL BE UNABLE TO HONOR THEIR FUTURE CONTRACTS WITH PRODUCERS FOR 1974-75 COTTON. THUS, THE PRIMARY GOAL OF PROTECTING US COTTON SHIPPERS AND PRODUCERS FROM FINANCIAL RUIN AS A RESULT OF WIDESPREAD DEFAULTING ON VALID CONTRACTS HAS BEEN ATTAINED.

3. THAILAND: THE COTTON CONTRACT PROBLEM HAS BEEN PARTICULARLY INTRACTABLE IN THAILAND. THERE HAS NEVER BEEN ANY INDICATION THAT THE RTG WILL PROVIDE THE NECESSARY INCENTIVES OR PRESSURES TO PERSUADE DELINQUENT MILLS TO OPEN CONTRACTS. IN ADDITION, US COTTON CAN, AND PROBABLY WILL, BE REPLACED BY COTTON FROM OTHER COUNTRIES IF US SHIPPERS CONTINUE TO REFUSE TO SELL TO DELIQUENT MILLS. IN THAILAND, CCC CREDIT ALONE WILL DEFINITELY NOT BE SUFFICIENT TO PERSUADE MILLS (OR THE RTG) THAT CONTRACTS FOR EXPENSIVE CONTRACTS SHOULD BE HONORED. AT PRESENT, THE ONLY SOLUTION AVAILABLE SEEMS TO BE LEGAL ACTION AGAINST MILLS CONCERNED WHICH PROMISES TO BE SLOW AND THUS VERY COSTLY FOR US SHIPPERS CONCERNED. UPON RETURN TO WASHINGTON, COTTON CONTRACT TEAM WILL RE-EXAMINE ALTERNATIVE APPROACHES TO PROBLEM IN THAILAND, BUT CURRENT PROGNOSIS INDICATES THAT A SOLUTION COMPARABLE TO THOSE ACHIEVED ELSEWHERE IS UNLIKELY.

MASTERS

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